

# The Effect of Critical Success Factors on Financial and Non Financial Performance in Quality Context

Farhad Sanjarifard <sup>1</sup>, Nur Naha Abu Mansor <sup>2+</sup> and Roya Anvari<sup>3</sup>

<sup>1,2,3</sup> Faculty of Management and Human Resource Development, Universiti Teknologi Malaysia, Johor Bahru Campus, 81310 Skudai, Johor Darul Takzim, MALAYSIA

**Abstract.** Quality prepare various approaches to improve organization performance; these approaches are created in set of the quality management systems known as total quality management. The critical factors in quality context influencing in organization performance, but most research conducted the effect of CSF on financial or non-financial measures lonely and consequently; these researches are not provided the holistic framework. The aim of this paper is to identify the critical success factors (CSFs) specifically for QMS in order to investigate their effect on financial and non financial performance with propose the conceptual framework. This paper is a bibliography (bibliometric) with exploratory reviews of related literature to identify the CSFs of QMS based on previous studies.

**Keywords:** quality management, organization performance.

## 1. Introduction

The term “quality” comes from “qualitas”, the Latin word which as a character is best translated (Bergman and Klefsjö, 2007). In the existing marketplace, quality is not just a strategic weapon for competing or protecting them from irritation, but it also means client satisfaction. Thus, the specific advantage in a company is recognized and after that, it competes with one or more quality dimensions (DrÄfghici and Petcu; Kumar, Choisne et al., 2009). Organization understands the fact that obtains zero-defect product and services can guide not only the satisfaction of client but also increased internal efficiency and decreased costs. Crosby argued that the vast number of definition for quality is existed today. One usual mistake is that quality means wealth, kindness or importance (Crosby, 1979). Quality also used in phrases to show good or bad quality as comparative value. In Crosby’s point of view a definition is significant to eliminate the subjectively form the definition quality as “conformance to requirement”, but definition is only focused on production view (Bergman and Klefsjö, 2007). Juran (1951) and Deming (1986) defined quality with an emphasis on customer focus. “Fitness for use” defined by Juran and Deming suggested that:

*“quality should be aimed at the needs of the customer, present and future”*. Quality is defined in ISO 9000-2000 as a: *“degree to which a set of inherent characteristics fulfill a requirement”*.

In 2007, Bargmen and Klefsjo tried to combine different viewpoints and argued that: *“the quality of a product is its capacity to satisfy, and preferably outperform, the customer’s needs and expectations”*.

However, a problem in this definition is that who is the customer? The concept customer is focused by Lehmann and Winer (2005) in five entities within a business as follows:

1. Initiator recognition the requirement for the product; 2. Influencer- has data or preference to put into the decision; 3. Decider-through the budget authorization makes the final decision; 4. Purchaser- actual buys the product; 5. User-the product user.

Rockart (1979, p. 85) argued that *“the critical success factors are areas of activities that should receive constant and careful attention from management”*. Information and data on their situation should be made available in a timely fashion at suitable levels. As the name implies, the determination of the set of factors that the manager conducts is critical for success. CSFs have been studied with several scholars due to the important role in business. Study on organization Performance background could be divided in two periods; the first one was applied from 1880 to 1980, which focused on financial measures in evaluating performance

<sup>+</sup> Corresponding author. Tel.: + 607-5530266; fax: +607-556911  
E-mail address: (nurnaha@utm.my).

such as profit, productivity, and return of investment (ROI). In the early 1980s, due to global competition, customer needs changed. Consequently, organizations focused on new methods, philosophies and technological implementation in management and production (Ghalayini et al., 1997).

The traditional approach was popular in early 1980s. It focused on financial measures based on an accounting statement such as cash flow, income statement, return of internal rate, and balance sheets. The most popular method in this approach was the economic value added (EVA), but this technique was criticized because it had a little difference with previous traditional techniques.

The complexity and competition of organizations are the reasons for these limitations (Kaplan and David, 1992). Many scholars exposed the weakness of financial indicators and argued financial measures are based on simple costs. They focus on decreasing labor cost, they have the disability to support competition environment, they have few standardized items for mass production, and finally, they have the disability to adapt to a new philosophy in management (Tangen, 2003). The result of the failure and weakness in the traditional methods became a revolution. Researchers Between 1980s and 1990s, had created new methods that stressed on goals and existing environments.

## **2. Total Quality Management (TQM)**

It was first time in 1980 when Deming in United State introduced Total Quality Management (TQM), after World War II. Deming taught TQM principles to Japanese to aid them to build their country again with Deming's quality principles. TQM is cooperative from doing business that trust in the capacities and a talent of both management, labour to productivity, and continues improvement in quality through an integrative team approach. The customer satisfaction needs is involved exceeding and meeting by TQM, decreasing cost and decreasing the rate of return of poor quality products, and empowering employee to obtain the goals in organization that they assist establish (Deming, 1986; Juran, 2003). It means that employee and manger are partners whose one objective is to provide customer satisfaction in the most cost effective and most efficient way possible.

Many scholars investigated reasons of implementation of TQM by organizations. Ninety-two companies in USA were investigated by Ramirez and Loney (1993). They found that reasons are various and included loss of market share, competition, survival and desire to improve, customer dissatisfaction, a crisis in the operation, need to maximize productivity and reduce cost, negative publicity. Five categories are grouped for ten small businesses that adopted TQM (Shea and Gobeli, 1995). Consistency with management style; promotion of organization growth; improvement of the process; increase in customer focuses and desire to reduce completion; improve poor performance in company for survival business; definition of total quality management (TQM). There are different definitions for TQM in different organizations and from individual to individual. In 1991, Sashkin and Kiser described TQM occurs when "the organization's culture is defined by and supports the constant attainment of customer satisfaction through an integrated system of tools, techniques, and training. This involves continues improvement of organization process, resulting in high products and service" (p.25).

Wilson (1992) explained that TQM is based on:

*"a staturesd system for crating organization wide participation in planning and implementing continues improvement process that meet and exceeds customer need" (p.227).*

TQM is defined as continues improvement for performance of organization, of groups, and of individual (Kanji and Asher, 1993). In 1993, Evens (Evans, 1993) argued that TQM is a concept of integrative management for continuously improvement of the quality delivered services and products during participation of all functions and levels of the organization. For production of quality services and goods, everybody in organizations have it is their role. Furthermore, Lawler (1994) defined TQM as an approach in management which focuses on development in long term and organization development by customer satisfaction through concept of total quality and the total participation. In 1998, Petrick defines TQM as a person stressed management system with the main objective continually enhancing customer satisfaction at the minimum cost. Both vertically and horizontally, across all functions and department, all staffs of an organization and their linkage are comprised with TQM which is comprehensive systematic approach.

According to Hellsten and Kelfsjo (2000) TQM is a management system for continuous change, which is comprised of methodologies, tools, and values. It aims to enhance internal and external customer satisfaction.

## **2.1. Evaluating Quality Management Systems**

There are many quality awards around the world, for instance Deming prize (Japan), Europeans quality award, and Malcolm Baldrige National Quality Award (United States). The successful implementation of strategic quality management will enhance awareness on quality management system because of its significant contribution to superior competitiveness, persuade self-assessment systematically against established measures and market awareness. Simultaneously, it will motivate dissemination and sharing of information due to the successfully deployed quality strategies and benefits gained from implementing. These strategies will promote understanding on the needs for the achievement of quality excellence and successful deployment of quality management. Encourage firms to introduce a continuous improvement process, is the aim of quality awards. The core emphasis of the standard which evaluates the management of the system and process of the contestants are leadership, customer-oriented, fact based management, and continuous improvement. Moreover, it is important to notice that those awards are not identical in their evaluation criteria. For instance, the European quality awards focus on an impact to society measures, while Malcolm Baldrige does not.

### **2.1.1 Deming Prize**

In 1951, The Deming Prize was established by a number of managers of the Japanese Union of Scientists and the main aim was to extend the quality gospel by identifying performance developments flowing from the successful implementation of firm-wide quality control based on statistical quality control techniques (Ghobadian and Woo, 1997). The Deming Prize showed an effective tool for extending quality management throughout the industries in Japan. There are 10 main elements in the Deming Application Prize (1996), as well as a checklist that is used to assess the performance of top management. This checklist focuses on the significance of top management's active contribution in quality management activities and understanding of the main needs of quality improvement programs. It also provides top managers with a list of requirements that they need to do.

### **2.1.2 European Model**

The European Quality Award was officially run in 1991. The initial objective of the award is to support, encourage, and identify the improvement of effective quality management by European firms. The model of the European Quality Award is separated into two parts, Enablers and Results. Leadership, people management, policy & strategy, resources, and processes are named the enablers that conduct facilitates and business the transformation of inputs to outputs. People satisfaction, customer satisfaction, impact on society, and business results (the measure of the level of output attained by the firm) are the results. The European Quality Award model (1994) consists of nine initial elements, which are further divided into a number of secondary elements.

### **2.1.3 Malcolm Baldrige National Quality Award**

Malcolm Baldrige National Quality In 1987, The US Congress passed the Improvement Act, and therefore instituted a yearly quality award in the US. The purpose of the award is to persuade American companies to enhance quality, improve overall companies Performance and capabilities and customer's satisfaction. The model can be used to evaluate companies current quality management practices, benchmark performance against key competitors and world class standards, and improve relations with customers and suppliers. The importance elements of Deming prize, European quality Award and Malcolm Baldrige Award examined by Vokurka et al. (2001) illustrate on Table 1.

Detail analyzes and Comparison of European quality award and Malcolm Baldrige Award, as well as ISO 9000 was conducted by Vokurka et al. (2001). They argued that the award models were farther-reaching and broader than ISO9000 requirements.

Table 1: Comparison among Three Major Quality Awards

Deming prize	Malcolm Baldrige Awards	European Quality Award
Policies	Leadership	Leadership
Organization	Strategic planning	Strategy and policy
Information	Market and customer focus	People management
Standardization	Information and analyze	Resource
Human resource	Human resource focus	Process
Maintenance	process management	Customer satisfaction
Improvement	Business result	Impact on society
Effects		Business result
Future plan		

Vokurka *et al.*, 2001. P46

## 2.2. CFS in TQM

Several researchers have identified CSFs for success on quality management or TQM practices implementation in organizations. However, the authors were identified major CSFs based on frequently in literature and Pareto analyse (Sanjarifard, Mansor et al., 2011). These main CSFs in quality context are: customer focus, employee focus, performance measurement, information usage, process management, quality strategy, supplier relationship, training and education, benchmarking, communication.

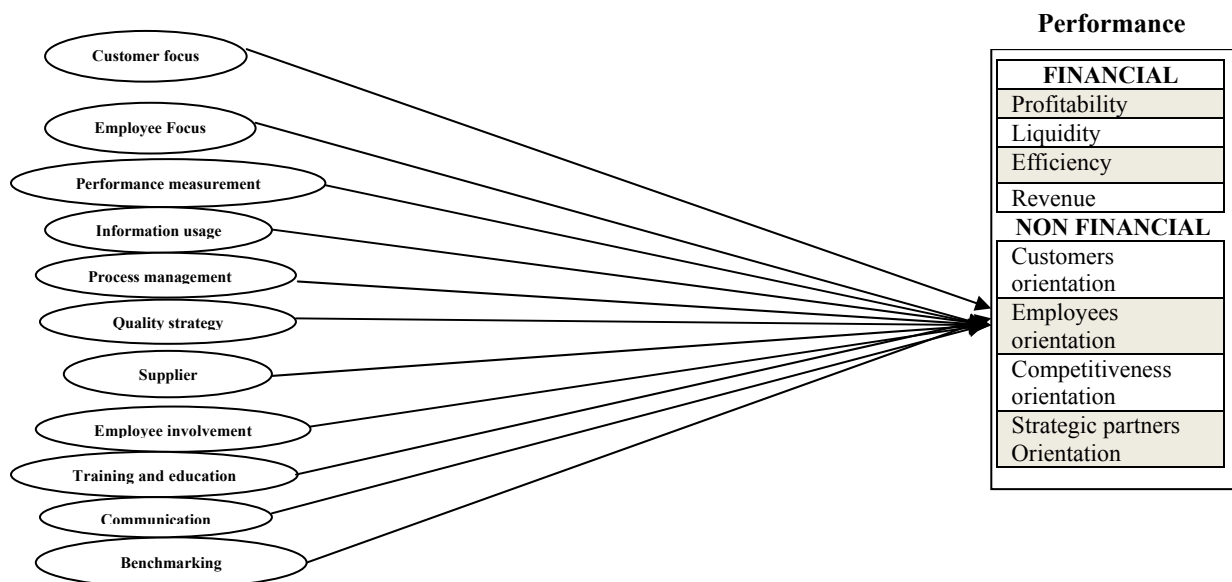


Figure 1: Proposed conceptual framework

## 2.3. Organization Performance

The results of performance usually are the outcomes of previous actions. The accepted performance targets based on existing situation is performance objectives. Due to the weakness in the financial approach, scholars evaluate organization performance based on both financial and non-financial measures. Hence, the result of performance in organization should be measured by both financial and non-financial (customer satisfaction and employee satisfaction) indicators and other specific factors. The objective and result of performance in organization cannot be mechanized; rather, they should be flexible. Wu (2009) reviewed the measures and dimension of performance used in literature then examined the relationship between performance variables.

## 3. Conclusion

Various approaches are prepared by quality management to develop organization performance. These ways are created in the set of QMS, known as TQM. Many scholars cited TQM have affected on organization performance (Ghobadian and Woo, 1997; Vokurka et al., 2001). Several researchers have identified CSFs for success on quality management or TQM practices implementation in organizations. However, this paper proposes a framework for identifying the CSFs that contribute to organisational

performance. This purposed conceptual framework is developed for identifying the CSFs for investigates their effects on organization performance. This paper is intended to share a review of previous studies in relation to identifying the CSFs. Based on these review, further methodological approach will be adopted to confirm on the CSFs to quality measures in organization.

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